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ALSO FOR EB  
COMMERCE FOR ITA  
DEPT PASS TO USTR FOR WJACKSON  
ADDIS ABABA FOR AU MISSION

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SUBJECT: UPDATE ON TANZANIAN ECONOMY: SHORT-TERM GROWTH  
MUST CONTINUE LONG-TERM

#### SUMMARY

1. (U) Tanzania's economy grew by 6.2 percent in 2006 despite drought-like conditions and a prolonged energy shortage, according to second quarter Government of Tanzania (GOT) and International Monetary Fund (IMF) reports. Exports continue to rise with minerals the leading growth sector. The country's import bill was higher however, partially from the need to import more food due to the drought and higher world oil prices. The Tanzanian Revenue Authority surpassed its revenue targets through a successful reform program that closed important tax loopholes. However, inflation was considerably above the 4.0 percent target set three years ago, reaching a monthly average of 5.7 percent in the GOT fiscal year (July 1 to June 30). While the GOT is predicting a 7 plus percent Gross Domestic Product (GDP) growth rate in 2007, 2008 and 2009, both the IMF and senior Government of Tanzania officials realize that there needs to be more focus on the rate of population growth which continues to rise and could negatively impact any gains the economy might make. End Summary.

#### Economic Growth Holding Steady

2. (U) On June 12, in preparation for her budget presentation to the Parliament, the Minister of Finance, Ms. Zakia Meghji, discussed the state of the Tanzanian economy. Meghji noted that the final calendar year 2006 figures show Tanzania's Gross Domestic Product (GDP) to have grown by 6.2 percent, slightly above the predicted growth rate of 5.9 percent. Meghji stated: "Were it not for drought conditions and the power crisis that hit the country in early 2006, the economy would have performed much better." The 2006 growth rate of 6.2 percent followed three years of strong economic progress for Tanzania: in 2005, 6.8 percent; in 2004, 6.7 percent; and in 2003, 5.7 percent. Minister Meghji said that guidelines for the 2007/08 budget now under discussion in the Union Parliament, predict Tanzania's GDP growth rate at: 7.3 percent in 2007; 7.7 percent in 2008; and 7.9 percent in 2009.

#### IMF Concurs

3. (U) In a mid-May briefing to diplomats and multilateral heads, Robert Sharer, Assistant Director in the African Department of the International Monetary Fund (IMF), said that IMF is in agreement with this prediction. Sharer noted

the economy of Tanzania is "going very well indeed," although it remains fragile. Despite continued economic growth, Tanzania is a "very poor country and will remain so for the next 20 to 25 years," concluded Sharer. Sharer has visited Tanzania three times per year for the last four years and shared IMF's assessment of recent economic developments and the policies needed to sustain Tanzania's policy reforms.

¶4. (U) Sharer said that the IMF predicts Tanzania's GDP will grow by more than 7 percent in 2007: "Good for any standard in the world," Sharer noted. The UN Economic Commission for Africa has predicted an average 5.8 percent growth throughout Africa in 2007. However in Sharer's view, making gains to fight poverty in the short-term (two-to-three years) is unrealistic since factoring in a two-percent population growth rate makes the GNP-per-capita growth only 3.3 percent per year. Sharer said there is a growing sense of concern within the Government of Tanzania (GOT) about population growth, observing that President Kikwete had commented earlier in May that the GOT "needs to get serious" about population growth and natural resource management.

¶5. (U) In February 2007, the Executive Board of the IMF had reviewed Tanzania's macroeconomic framework, noting the areas where solid gains had been made and encouraging sustained and sound economic policies. At that time, Murilo Portugal, the IMF Deputy Managing Director, stated that "Tanzania has achieved a sustained strong economic performance through market-oriented policies within an appropriate macroeconomic framework." His remarks were made at the conclusion of the final review of Tanzania's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The review enabled an additional release of USD

DAR ES SAL 00000950 002 OF 003

4.2 million, bringing the total disbursement under the PRGF arrangement to USD 29.4 million.

#### Key Sectors are Growing

¶6. (U) A June 4 GOT Ministry of Economy, Planning and Empowerment report stated that Tanzania's exports of goods and services in 2006 was USD 3.13 billion up from USD 2.95 billion in 2005. Growth in exports was led in 2006 by the mineral sector, with a 16.4 percent increase to USD 824.7 million, up from USD 665.6 million in 2005. Tourism and port services were also important factors in this growth, with the export of manufactured goods increasing significantly as well. Tanzania's import bill was USD 3.9 billion, up from USD 3.01 billion in 2005, approximately a 28.9 percent increase. As a result, Tanzania's current account deficit increased to 9.3 percent of GDP in 2005/06 as compared to 5.3 percent of GDP in 2004/05. According to a GOT Treasury report released on June 11: "The projected moderate increase in the current account deficit is expected to be covered by higher external assistance in the form of grants and concessionary loans, as well as a continued increase in Foreign Direct Investment (FDI)."

¶7. (U) According to the Treasury report, key export sector growth areas include: mineral exports representing 47.8 percent of export earnings; industrial products, 11.4 percent; fish and fish products, 8 percent; tobacco, 3.8 percent; coffee, 3.6 percent; and cotton, 3.2 percent. Tanzania's export of goods and services are expected to grow by an average of 10 percent per year over the next three years. During the same period, imports are expected to grow by 12 percent. The import bill will rise due to investments needed in the energy sector and projected higher world market oil prices.

¶8. (SBU) Andrew McAlister, the Canadian High Commissioner to Tanzania, noted during Sharer's IMF briefing that growth in the banking sector had been impressive in 2006, but still only 8 percent of Tanzanians have bank accounts. McAlister also highlighted the "huge revenue losses" associated with

illegal timber trafficking and issuance of wildlife hunting licenses. Sharer agreed that the allocation of many hunting blocks is done in secret, but added that hunting block fees would be included in a government study of all revenues other than taxes, the terms of reference for which are being finalized.

¶9. (SBU) All briefing participants agreed that the transparency of the Bank of Tanzania's (BOT) accounts are key as all of the formal economy flows through the Central Bank accounts. Sharer said the IMF insisted that an international firm audit the BOT and that the terms of reference for this audit include every transaction.

#### Tax Revenue Collection Up

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¶10. (U) Despite the moderate slow-down in the GDP economic growth rate in 2006, the Tanzanian Revenue Authority was able to surpass its domestic revenue collection target of 14.5 percent of the GDP during the 2006/07 fiscal year. According to the Ministry of Finance, the increase reflects "continued tax and customs administration reforms and policy measures announced one year ago, in the course of the 2006 budget deliberations in the Parliament." Sharer praised the TRA calling its reform "by far the most effective, well-organized and well-executed reform of a tax administration." Through the TRA's reform efforts, tax revenues went from 11 percent of the GDP last year to 16 percent in 2006/07, well-above its budgeted performance target (14.5 percent). This increase was attributed to closing existing loopholes rather a hike in the tax rates. Provisional Treasury figures showed that by June 30, last day of the GOT fiscal year, revenue collections should reach 2.55 Tz shillings (approx. USD 20.3 billion) as compared to the target of 2.46 trillion Tz shillings (approx. USD 19.60 billion).

#### ...But Inflation on the Rise as Well

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DAR ES SAL 00000950 003 OF 003

¶11. (U) The Minister of Planning, Economy and Empowerment, June Ngasongwa announced on June 8 that the average inflation rate in fiscal year 2006/07 was well above the target of 4 percent that had been set in 2004. Over the last eleven months, the inflation rate averaged over 5.7 percent per month. Drought, which affected both food supplies and energy production, coupled with escalating crude oil prices, adversely affected the GOT's efforts to curb inflation, according to Minister Ngasongwa. He noted that prices began to decline in the first quarter of 2007, especially the price of food items such as potatoes, bananas, beef, beans and groundnuts. In addition, the Bank of Tanzania's May 2007 monthly report showed that the country's Strategic Grain Reserve (SGR) reached 125,509 metric tons in April 2007. One year previously, April 2006, there were only 6,210 metric tons in the SGR, during the height of the drought-related food shortage that was felt severely throughout most of the country. The GOT has revised the target inflation rate for the next twelve months (FY2007/08) to an average of 4.5 percent.

#### Constraints

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¶12. (U) While IMF's Robert Sharer believed the GOT is serious about economic objectives, the government continues to experience capacity constraints and thus, progress is "slower than desired." In his view, despite experiencing the 2006 drought and energy shortage, Tanzania is still moving in the right direction. However, Sharer recognized that the GOT continues to face serious problems, including linking public expenditures to government policy objectives, undisbursed public funds, and weak internal communications between GOT agencies and other entities.

#### Doing Business in Tanzania

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¶13. (U) Doing business in Tanzania continued to be challenging with high costs for labor, electricity and water. Jonathan Njau, Chief Executive Officer of the Dar es Salaam Stock Exchange, recently encouraged companies to go public, noting the tax incentives that become available. Publicly-listed companies pay 25 percent corporate tax instead of 30 percent and a 5 percent tax on dividends rather than 10 percent. While no Tanzanian company was ranked as one of Africa's Top 200 Companies in African Business 2006 survey, and only three Tanzanian companies ranked in the top 50 in East Africa, Njau noted that all three were firms that had gone public.

Comment

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¶14. (SBU) The cautious optimism for Tanzania's economy must be tempered by patience, as progress remains slow. There is no silver bullet for economic growth or reform. For example, in April 2007 the World Bank praised Tanzania for being one of the ten countries that made the most significant reforms among the indicators monitored by its "Doing Business Report." However, even after taking commendable reforming strides, Tanzania ranked only 142 out of 175 world economies in the "ease of doing business." Commitment to economic reforms must remain steady, as sustained economic growth of 6 to 8 percent as well as serious attention to slowing down the population growth is needed over a period of years and decades in order for Tanzania to alleviate poverty among its 38 million plus citizens.  
RETZER